Acme Markets Annual Report -- 1971
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1971 Annual Report

ACME MARKETS

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1971 ANNUAL REPORT ACME MARKETS, INC.

Fiscal years ended April 3, 1971 and March 28, 1970

1971 HIGHLIGHTS	1971	1970
Sales	$1,798,719,010*	1,650,248,519**
Net Earnings	$14,933,711*	12,530,073**
Earnings Per Share	$4.39*	3.69**
Shareholders' Equity Per Share	$54.44	51.96
Number of Shareholders	16,091	15,723
Number of Employees	35,364	35,283
RETAIL UNITS IN OPERATION		
Food Stores	787	804
Rea & Derick Stores	75	64
Hy-Lo Stores	10	9
Discount Department Stores	6	4
Alphy's Coffee Shops	24	16
Total Food Store Sales Area (square feet)	9,474,790	9,272,190

*53 weeks **52 weeks

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After a joint luncheon meeting with members of Acme's Board of Directors earlier this year, the division managers reported on their division activities. (Top left) Vice Chairman Claude W. Edwards, left, with E. Paul Hasler, Newark (N.J.) Division Manager. (Top right) Board Chairman Paul J. Cupp, left, with Robert L. Mann and Robert W. McCahan, Managers of Buffalo-Syracuse (N.Y.) and Baltimore (Md.) Divisions, respectively. (Center left) Board Member Edward J. Dwyer, left, with C. Philip Helsby, Philadelphia Division Manager. (Center right) Albert J. Faulhaber, left, Vice President, Engineering, with William L. Williams, Johnstown (Pa.) Division Manager. (Bottom left) Board Member Willis J. Winn, left; James A. Trolier, former Syracuse (N.Y.) Division Manager, and now General Manager, Skyline, and Thomas T. Oyler, Executive Vice President, Administration. (Bottom right) Wilkes-Barre (Pa.) Division Manager Walter J. Maguire, now retired.



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REPORT TO THE SHAREHOLDERS

Sales and earnings reached new records in the 53 weeks ended April 3, 1971. Sales increased to $1,798,719,010, a gain over the preceding year of $148,470,491. This was the 33rd consecutive year in which sales increased over the previous year. Earnings after taxes were $14,933,711 compared with $12,530,073, an improvement of $2,403,638 over the prior year. Earnings for the year were $4.39 per share on the average number of shares outstanding, compared to $3.69 per share adjusted for the 5% stock dividend paid March 31, 1971. The $3.69 reported in the prior year included 12¢ a share contributed by a capital gain on the sale of certain real estate not used in the business.

Our growth continued in established markets and in new geographic areas. A larger number of retail units were opened in the year just ended than in either of the two previous years. A number of improvements have been made in the supporting functions to serve our retail units. Two major additions to our food processing and distribution facilities, the Alpha Beta bakery at La Habra, Calif., and the Alpha Beta distribution center at Milpitas, Calif., for the Northern California Division food stores, are now under construction. Details of this expansion appear later in this report.

Capital expenditures for the year were $30,870,342, an increase from the $30,667,013 of the prior year. Planned capital expenditures will total approximately $36,000,000 during the current year. In August, we sold publicly $25,000,000 9¾% Sinking Fund Debentures due in 1990. This was the first public debt offering in the 80-year history of the Company. The borrowing enabled the Company to repay substantially all its short-term debt and materially strengthened its working capital position. Throughout the year, a number of sale and leaseback transactions were negotiated, with the majority of these being arranged after money market rates had eased. Commitments for more sale and leaseback transactions were obtained before the end of the year and have been consummated. Additional sale and leaseback arrangements and retained earnings should provide investment funds required for our continued expansion for the immediate future.

Two organizational changes were made to improve the effectiveness of our operations and to serve the customer better. The responsibility for the supervision of the operating divisions at Syracuse and Buffalo was combined under Robert L. Mann, formerly Buffalo Division Manager. James A. Trolier, who had been Division Manager at Syracuse, was promoted to the new post of General Manager of our Skyline Division. Skyline is responsible for buying, warehousing and merchandising nonfoods merchandise for all of our eastern supermarkets. This move will enable us to place more emphasis on this important merchandise category.

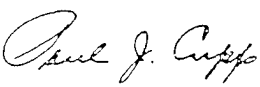
The year just concluded was a challenging one, but significant improvement was made in many areas. Continuing pressures from the inflationary trend, high labor costs and increased taxes will require effective management and extra effort to enable us to sustain increases in sales and earnings growth. However, with a sound financial base and an excellent group of fine co-workers, we are confident that progress will continue.

It is gratifying to note that we have 2,068 active employees with more than 25 years of service. This able, dedicated and experienced group, along with outstanding young people who are continually being recruited and trained in a number of our development programs, gives us a strong team for the future.

Respectfully submitted,



President
and Chief Executive Officer



Chairman
Board of Directors

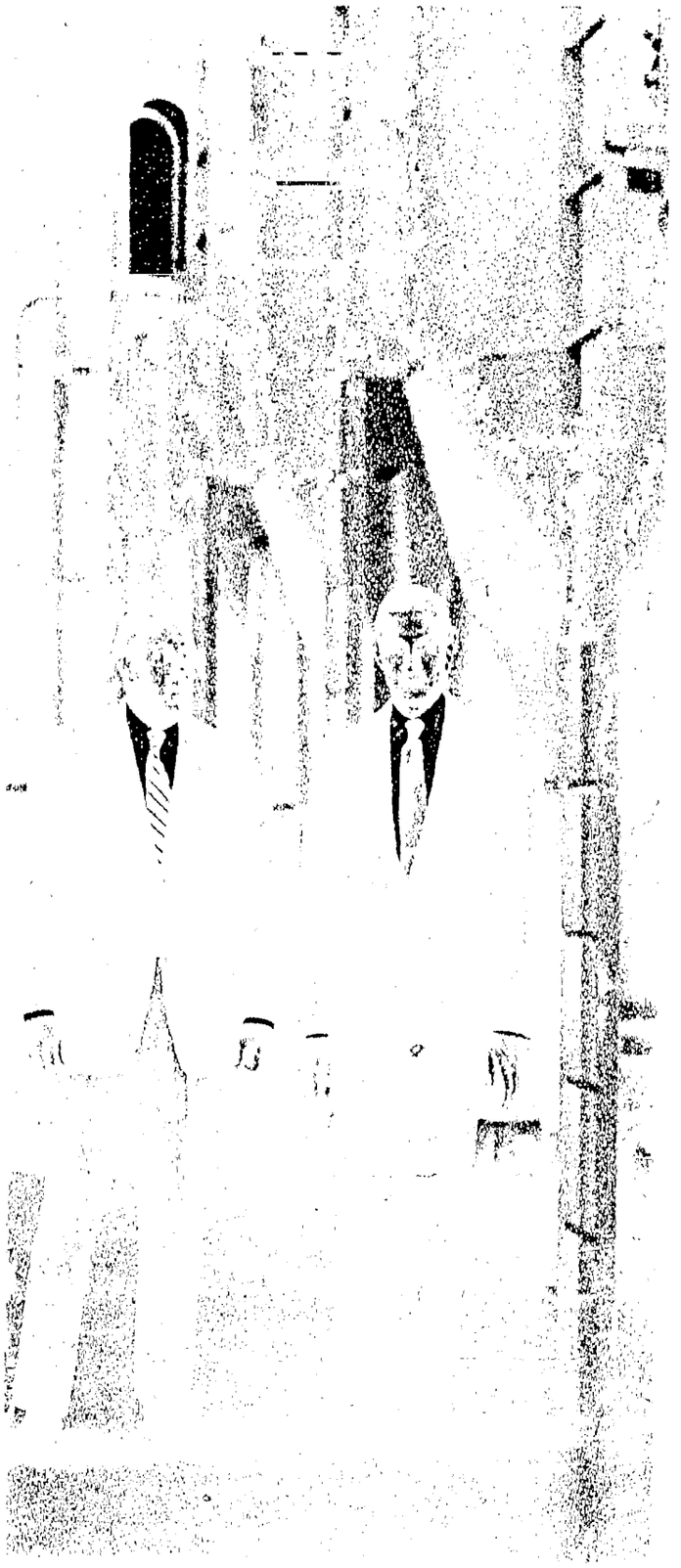
Philadelphia, Pa., May 25, 1971

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(Top left) In February, Acme's Board of Directors met at Alpha Beta, Acme's West Coast subsidiary, headquartered in La Habra, Calif. Talking with Lester Jones, left, Alpha Beta Personnel Director, are Board Members A. Kohr Sprenkle, Arthur C. Kaufmann and James A. Hamill. (Bottom left) Hundreds of Acme employees attended management development workshops and conferences during the year. Here, Clifford T. Haskell, Executive Vice President, Merchandising and Sales, addresses a typical management group. (Right) Partial production will begin in new, automated Alpha Beta bakery later this year. Here, Alpha Beta President William R. Deeley, left, and John R. Park, Acme's president and chief executive officer, tour the new facility.







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YEAR IN REVIEW

Dividends

Cash dividends paid by the Company during fiscal 1971 were the highest in its history, totaling $6,479,101, compared with $6,142,483 for the previous year. It was the 29th consecutive year in which a regular quarterly cash dividend was paid. The current cash dividend rate of $2.00 per year compares with $1.25 in 1961 after adjustment for the cumulative effect of stock dividends.

Fiscal 1971 marked the 18th consecutive year in which a stock dividend was paid. A 5% stock dividend was paid on March 31, 1971, and involved the issuance of 162,925 shares valued at $7,005,775.

Store Program

Thirty-six new food stores were opened. Nine of these were Acme markets and eight were Super Savers, the eastern discount markets. A total of 30 Super Savers are now in operation. Alpha Beta opened 19 stores. Of this group, eight were in the Northern California Division, bringing the total in that area to 17.

Rea and Derick, Inc., the Company's eastern drug subsidiary, added 11 new stores, the greatest number of units ever added in a single year, and Hy-Lo, Alpha Beta's drug chain, added one new store. Alpha Beta opened eight new Alphy's family restaurants and Mid-Atlantic Hardee, Inc., the fast-food franchising subsidiary, placed 19 units in operation. Value Fair, the West Coast junior department store chain, added two stores by acquisition of another corporation.

During the present fiscal year, Acme will add 17 new stores. Alpha Beta will open 27 stores, 13 of them in the Northern California Division. Rea and Derick plans to add four units, while four new Alphy's will be opened and Hardee's will add six units.

Acme's program of adding selling space to certain stores and modernizing others to provide better customer service continued. Additions were made to seven stores and 23 were remodeled. In the current year, the plan calls for the enlargement of 15 stores and 40 will be remodeled.

A total of 53 food stores were closed last year in areas now being served by larger, more modern Company units, or where economical operations were otherwise no longer feasible. Despite these closings, the total square footage of selling area increased slightly.

Other Facilities

The 288,000 square-foot building for the new Alpha Beta bakery is 95% complete. Equipment installation should be completed by October 1971, with partial production beginning earlier. When in full production, around January 1, 1972, the new facility will be one of the largest and most fully automated bakeries in the United States, producing a complete line of breads, rolls and sweet baked goods, and employing approximately 300 persons.

A new freezer warehouse, being constructed adjacent to the Syracuse distribution center, will be completed and placed in operation by mid-summer. A 120,000 square-foot addition

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to the Wilkes-Barre, Pa., distribution center, begun last year, has now been completed and placed in operation.

All grading and foundation work has been completed for the new San Francisco Bay Area distribution center which is being constructed at Milpitas, Calif. The facility, a major addition to our West Coast distribution system, is scheduled for completion by April 1972.

Acme's distribution center at the Food Distribution Center in Philadelphia is now serving an increasing number of stores and will soon be in full operation. In the near future, a new truck maintenance center will be constructed at that center.

Near the end of the fiscal year, a distribution center was leased near Lancaster, Pa., to supply the non-foods merchandise needs of stores which previously depended upon outside distributors for this merchandise.

Automated Systems

A new financial data reporting system, known as the Operations Information System, was implemented near the end of the 1971 fiscal year. Made possible by the Company's recently improved data processing capability, the system periodically provides all operating management personnel with current, up-to-date information on their expenditures and other operating results, enabling them to achieve greater control over their respective areas of responsibility. The system also effectively integrates a number of accounting sub-systems, greatly facilitating all financial reporting procedures.

Another significant innovation installed in the past year is a fast-response, store-stock replenishment system encompassing store terminals, telecommunications and a unique automatic polling system which is processed under control of the central computers in Philadelphia. The system, dramatically designed to improve retail inventory management, is now installed in 216 stores in the Philadelphia Division.

Personnel Development

To provide a strong management team, capable of meeting the many diverse challenges and opportunities of the seventies, the Company continues to pursue an aggressive program of management development and training, utilizing the latest development techniques and know-how. Last year, hundreds of management people participated in supervisory development courses, work simplification seminars, various management development workshops and conferences. Programs covered a broad spectrum of subject matter, and were designed to meet the needs of all management levels.

Employee Stock Purchase Plan

During the past year, full-time employees who met certain requirements became eligible to purchase the Company's common stock at market on the New York Stock Exchange through the Monthly Investment Plan offered by Merrill Lynch, Pierce, Fenner & Smith, Inc. As of March 1971, over 2,000 Acme and Alpha Beta employees were acquiring Acme stock through this convenient investment program.

Consumerism

Acme welcomes the consumer movement as an opportunity to establish new lines of communication with its customers, to render new services and to develop a greater sensitivity to consumer needs.

In January, the Company placed added emphasis on "Freshness Dating," a system of open coding for its own brand of perishable and semi-perishable foods. Easy-to-read sales expiration dates appear on these products. In addition, a book containing the keys to many national brand codes was made available in store offices for customer information.

Acme was one of the first of the large chains to market its own brand of "No Phosphate" laundry detergent. Phosphates in laundry products have been blamed by environmentalists for causing excessive plant growth, in lakes, rivers and streams, which consumes oxygen needed by fish and other aquatic life.

For many years, Acme has salvaged much of its waste cardboard, rather than burn it and thus help pollute the atmosphere. Last year alone, nearly 40 million pounds of waste paper and cardboard were processed for recycling.

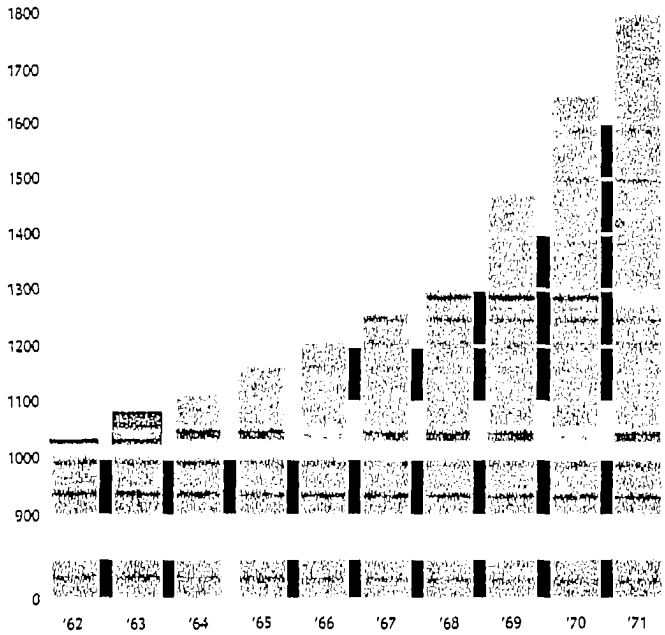
Shareholders

At the end of the fiscal year, Acme had more than 16,000 shareholders. The Company takes pride in having shareholders in all 50 states of the nation.

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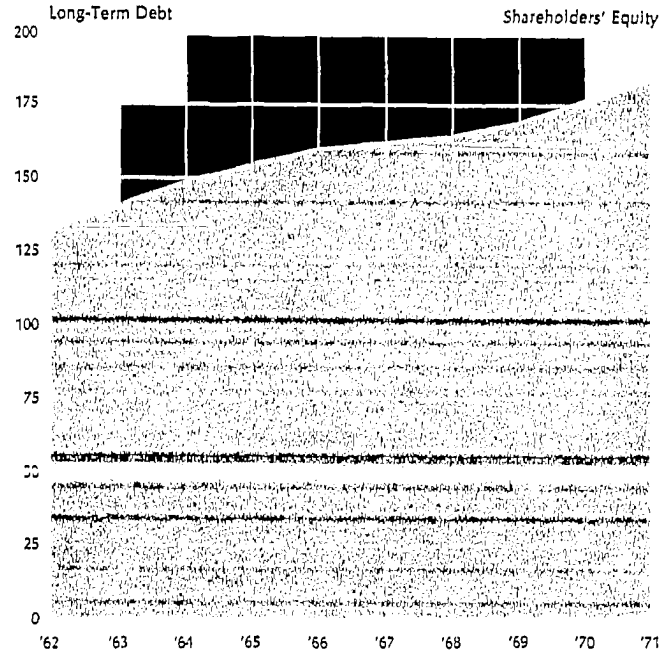
SALES

Millions of Dollars



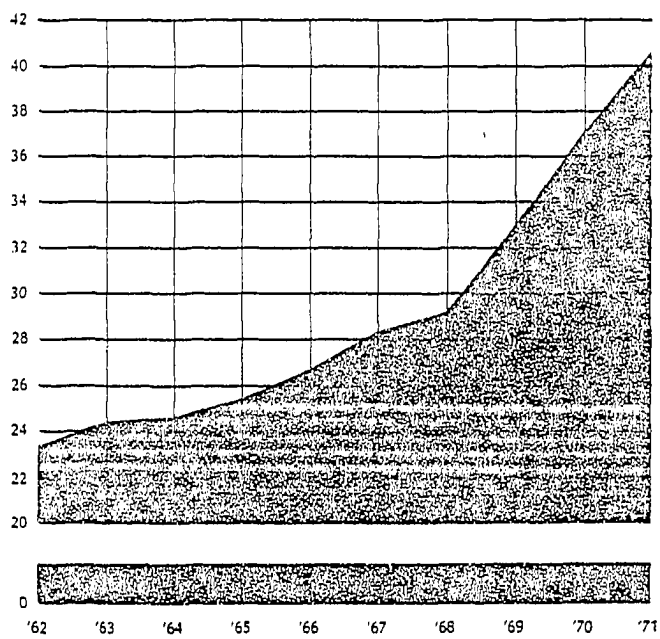
SHAREHOLDERS' EQUITY AND LONG-TERM DEBT

Millions of Dollars



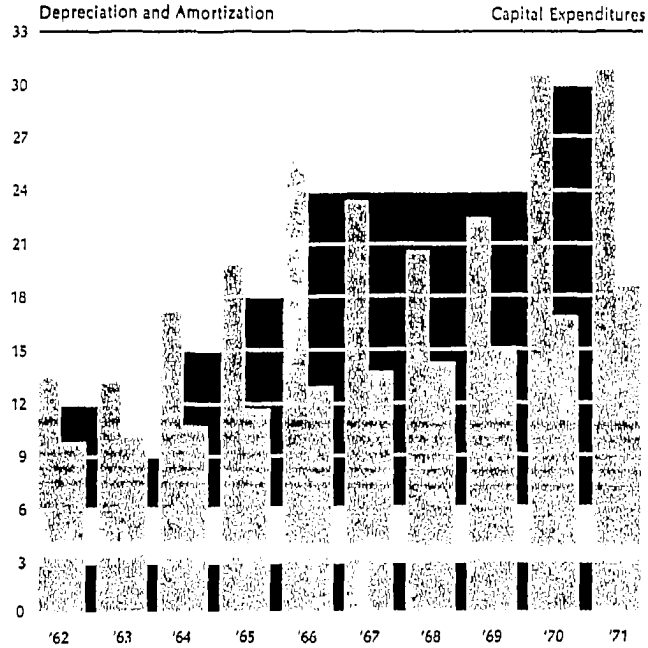
AVERAGE WEEKLY SALES PER FOOD STORE

Thousands of Dollars



CAPITAL EXPENDITURES AND DEPRECIATION

Millions of Dollars



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FINANCIAL STATEMENTS
TEN YEAR SUMMARY (a)

All dollar amounts are expressed in thousands, except per share and per sales dollar figures.
(a) Fiscal year ends the Saturday closest to March 31.
(b) 53 week year; other years 52 weeks.
(c) Based on average number of shares outstanding during the year, adjusted for subsequent stock dividends.
(d) In each of the ten years, cash dividends were declared on shares of Acme Markets, Inc. common stock, then outstanding, at the rate of $2.00 per share. As computed below, per share cash dividends have been adjusted for subsequent stock dividends.
(e) Based on number of shares of stock outstanding at year-end, adjusted for subsequent stock dividends.

	1971(b)	1970	1969
Sales	**$1,798,719**	1,650,249	1,479,522
Earnings before income taxes	**30,044**	25,830	22,271
Federal and State income taxes	**15,110**	13,300	11,270
Net earnings	**14,934**	12,530	11,001
Cash dividends	**6,479**	6,142	5,927
Earnings for year retained in business	**8,455**	6,388	5,074
Net earnings per sales dollar	**0.83¢**	0.76¢	0.74¢
Earnings per share of common stock (c)	**4.39**	3.69	3.25
Cash dividends per share of common stock (d)	**1.90**	1.83	1.80
Stock dividends	**5%**	4%	2%
Current assets	**202,131**	194,101	169,766
Current liabilities	**114,621**	134,950	102,428
Working capital	**87,510**	59,151	67,338
Current ratio	**1.76**	1.44	1.66
Plant and equipment additions	**30,870**	30,667	22,625
Provision for depreciation and amortization	**16,630**	16,750	15,018
Net plant and equipment	**148,292**	136,715	121,142
Total assets	**354,623**	336,448	298,998
Long-term debt, less current instalments	**42,724**	12,656	14,306
Common shares outstanding at year-end	**3,398,714**	3,238,972	3,103,900
Common shareholders' equity:			
Total	**185,030**	176,713	169,898
Per share (e)	**54.44**	51.96	50.13
Number of retail stores at year-end:			
Food stores	**787**	804	813
Other stores	**91**	77	74
Total stores	**878**	881	887

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1968	1967	1966	1965(b)	1964	1963	1962
1,302,075	1,261,137	1,206,807	1,161,198	1,118,685	1,081,061	1,034,879
15,962	16,655	18,848	24,314	28,120	27,091	28,230
7,332	7,067	8,281	11,430	14,530	14,030	14,900
8,630	9,588	10,567	12,884	13,590	13,061	13,330
5,815	5,564	5,348	5,127	4,924	4,680	4,439
2,815	4,024	5,219	7,757	8,666	8,381	8,891
0.66¢	0.76¢	0.88¢	1.11¢	1.21¢	1.21¢	1.29¢
2.55	2.82	3.08	3.84	3.99	3.85	3.94
1.76	1.68	1.60	1.52	1.45	1.38	1.31
2%	5%	5%	5%	5%	5%	5%
155,835	139,024	145,456	140,200	140,533	131,413	124,839
85,819	81,219	72,420	63,901	62,267	56,396	56,683
70,016	57,805	73,036	76,299	78,266	75,017	68,156
1.82	1.71	2.01	2.19	2.26	2.33	2.20
20,856	23,638	26,198	20,085	17,590	13,505	13,752
14,257	13,726	12,802	11,834	10,843	10,464	9,694
114,646	114,221	110,602	97,881	89,673	83,022	80,719
277,931	260,861	259,003	240,461	232,968	217,327	209,064
14,844	5,191	15,743	11,737	12,910	14,080	16,801
3,041,165	2,987,254	2,869,415	2,680,992	2,588,208	2,459,730	2,334,129
164,776	162,290	159,369	154,263	148,947	140,096	131,481
48.64	47.82	46.56	45.94	43.76	41.24	38.85
827	827	854	878	883	862	845
67	63	50	51	—	—	—
894	890	904	929	883	862	845

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ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Board of Directors
Acme Markets, Inc.:

We have examined the consolidated balance sheets of Acme Markets, Inc. and subsidiaries as of April 3, 1971 and March 28, 1970 and the related statements of earnings and source and disposition of funds for the fiscal years then ended. (The year ended April 3, 1971 includes fifty-three weeks.) Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Acme Markets, Inc. and subsidiaries at April 3, 1971 and March 28, 1970 and the results of their operations and source and use of their funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

May 17, 1971

STATEMENTS OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS

Fiscal Years ended April 3, 1971 and March 28, 1970

SOURCE:	1971 (53 weeks)	1970 (52 weeks)
Net earnings	$14,933,711	12,530,073
Charges against net earnings not involving the expenditure of funds:		
Depreciation and amortization	18,630,167	16,749,687
Deferred income taxes	5,000	9,000
Other	30,997	97,964
Total funds provided from operations	33,599,875	29,386,724
Long-term borrowing:		
9⅞% sinking fund debentures	25,000,000	—
Construction loan	5,000,000	—
Other	2,827,032	403,182
Proceeds from sale and leaseback of distribution center	—	1,761,301
Net book value of investment real estate, etc. sold	—	1,154,923
Proceeds from sales of common stock pursuant to exercise of options	114,529	10,531
Miscellaneous, net	1,808,896	587,341
Total source of funds	68,350,332	33,304,002
DISPOSITION:		
Expended for plant and equipment	30,870,342	30,667,013
Long-term debt becoming due within one year	2,759,012	2,053,248
Cash dividends	6,479,101	6,142,483
Plant and equipment of companies acquired	1,032,276	—
Purchase of 5,234 shares of common treasury stock	251,581	—
Investments and deferred charges (reduction)	(1,400,596)	2,627,248
Total disposition of funds	39,991,716	41,489,992
Increase (decrease) in working capital	$28,358,616	(8,185,990)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and marketable securities	$ (1,653,982)	10,748,801
Inventories	2,367,471	9,367,350
Store properties to be developed and sold within one year	5,243,208	801,161
Other current assets	2,073,172	3,418,092
	8,029,869	24,335,404
Increase (decrease) in current liabilities:		
Notes payable and current instalments of long-term debt	(21,595,803)	22,529,303
Other current liabilities	1,267,056	9,992,091
	(20,328,747)	32,521,394
Increase (decrease) in working capital	$28,358,616	(8,185,990)

See accompanying notes to financial statements.

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STATEMENTS OF CONSOLIDATED EARNINGS

Fiscal Years ended April 3, 1971 and March 28, 1970

CURRENT EARNINGS	1971 (53 weeks)	1970 (52 weeks)
Sales	**$1,798,719,010**	1,650,248,519
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	**1,419,313,188**	1,316,446,467
Wages, rents, advertising, administrative and other operating expenses	**327,949,017**	289,482,182
Depreciation and amortization (note 2)	**18,630,167**	16,749,687
	1,765,892,372	1,622,678,336
Operating profit	**32,826,638**	27,570,183
Other income (deductions):		
Non-operating items, net	**1,005,849**	632,514
Interest expense	**(3,788,776)**	(2,372,624)
Earnings before income taxes	**30,043,711**	25,830,073
Federal and State income taxes (note 4)	**15,110,000**	13,300,000
Net earnings	**$ 14,933,711**	12,530,073
Net earnings per share of common stock (1970 adjusted for stock dividend paid in 1971)	**$4.39**	3.69

EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	**$ 50,808,493**	49,502,454
Adjustment to conform accounting period of pooled company	**—**	(69,951)
Net earnings for the year	**14,933,711**	12,530,073
	65,742,204	61,962,576
Deduct:		
Cash dividends—$2 a share (equivalent to $1.90 on increased shares after issuance of stock dividends; 1970—$1.83)	**6,479,101**	6,142,483
Stock dividend—5% (1970—4%)	**7,005,775**	5,011,600
	13,484,876	11,154,083
Balance at end of year	**$ 52,257,328**	50,808,493

See accompanying notes to financial statements.

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CONSOLIDATED BALANCE SHEETS

April 3, 1971 and March 28, 1970

ASSETS	1971	1970
Current assets:		
Cash	$ 36,842,395	40,496,377
Short-term marketable securities	2,000,000	—
Receivables	11,374,130	10,546,146
Inventories, at lower of cost (average or first-in, first-out) or market	135,267,596	132,900,125
Prepaid expenses	8,814,819	7,569,631
Store properties to be developed and sold within one year	7,832,304	2,589,096
Total current assets	202,131,244	194,101,375
Investments, at cost or less	3,515,397	5,631,414
Plant and equipment, at cost:		
Land	20,587,958	22,414,961
Buildings	69,424,247	62,988,438
Machinery, equipment and fixtures	133,545,276	121,886,879
Leasehold costs and improvements	23,021,630	21,930,933
	246,579,111	229,221,211
Less accumulated depreciation and amortization (note 2)	98,287,550	92,506,007
Net plant and equipment	148,291,561	136,715,204
Deferred charges, etc.	684,424	—
	$354,622,626	336,447,993

See accompanying notes to financial statements.

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LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970
Current liabilities:		
Notes payable, short-term	$ 496,209	22,756,064
Current instalments of long-term debt (note 3)	2,694,752	2,030,700
Accounts payable	79,531,821	84,031,050
Accrued expenses	26,298,248	22,662,222
Federal and State income taxes	5,600,046	3,469,787
Total current liabilities	114,621,076	134,949,823
Long-term debt, excluding current instalments (note 3)	42,723,800	12,655,781
Deferred income taxes (note 4)	10,920,000	10,915,000
Reserve for self insurance, deferred investment credit, etc.	1,327,349	1,214,546
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares; issued none	—	—
Common stock of $1 par value. Authorized 10,000,000 shares; issued 3,423,433 shares (1970—3,257,530 shares) (note 5)	3,423,433	3,257,530
Capital in excess of par value of common stock (note 6)	130,455,196	123,500,795
Earnings retained for use in the business, less amount capitalized through stock dividends	52,257,328	50,808,493
	186,135,957	177,566,818
Less 24,719 shares common treasury stock, at cost (1970—18,558 shares)	1,105,556	853,975
Total shareholders' equity	185,030,401	176,712,843
	$354,622,626	336,447,993

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1. Principles of Consolidation. The consolidated financial statements include the accounts of the company and its subsidiaries, all wholly-owned.

On September 8, 1969, the company acquired the assets and business of Value Fair subject to its liabilities, in exchange for 81,250 common treasury shares. This acquisition has been treated as a pooling of interests and the 1970 financial statements include the accounts of Value Fair for the entire fiscal year.

During fiscal year 1971, two small retail companies were acquired for cash, and their accounts are included in consolidation from dates of acquisition.

2. Depreciation Policy. Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. However, for income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets.

3. Long-term Debt. A summary of long-term debt at April 3, 1971 and March 28, 1970 is shown below:

	1971	1970
9⅞% sinking fund debentures due August 1, 1990	$25,000,000	—
Construction loan payable	5,000,000	—
5¾% notes payable due August 1, 1975	7,200,000	8,800,000
Other notes payable	3,886,048	1,334,894
Purchase agreement	4,332,504	4,551,587
	45,418,552	14,686,481
Current instalments	2,694,752	2,030,700
Long-term	$42,723,800	12,655,781

Sinking fund payments, sufficient to retire $1,560,000 principal amount of the 9⅞% sinking fund debentures, are due annually beginning August 1, 1975.

The bakery project of a subsidiary is being financed on an interim basis by a construction loan from a bank bearing interest at ¼ of 1% above the prime rate. Upon completion of the project, a permanent loan will be substituted in an amount not to exceed $9,730,000 which will bear interest at 9¾% and will be payable in monthly instalments over twenty-five years.

The 5¾% notes are to be repaid in equal quarterly instalments of $400,000

The other notes payable bear interest at various rates, generally from 4% to 10%, are to be repaid by 1988 and are in part secured by deeds of trust on certain real estate. The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest (currently 2⅞%) and the remainder to principal.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, payment of dividends and purchase of capital shares. Under the most restrictive covenant, earnings retained for use in the business in the approximate amount of $26,550,000 at April 3, 1971 were free of restrictions.

4. Income Taxes. In accounting for income taxes, the company recognizes the tax effects of all timing differences, principally relating to accelerated depreciation and reserves not currently tax deductible. For the year ended April 3, 1971, $5,000 (1970—$9,000) was added to deferred taxes for taxes not currently payable.

Federal income tax expense has been reduced by $235,000 and $540,000 for the years 1971 and 1970, respectively, by reason of the investment credit provisions of the Revenue Act. Credits for 1964 and prior, which were deferred, are being amortized over the estimated lives of the related assets

Federal income tax returns of the company for its fiscal years 1965-1968 are currently being examined by the Internal Revenue Service. In regard to fiscal years 1963 and 1964 the examining agents have proposed adjustments, in addition to those already settled and paid by the company, principally the extension of lives used in computing depreciation of buildings and leasehold improvements, which the company is contesting. Any additional tax related thereto would have no material effect on net earnings or retained earnings because such adjustments would represent timing differences and payments would be applied against deferred income tax.

5. Stock Options. Under the company's stock option plans approved by the shareholders in 1952 and 1964, there were outstanding at April 3, 1971 options granted to officers and key management employees to purchase 94,895 shares common stock at prices ranging from $34.79 to $52.26, such prices being either 95% or 100% of market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before January 11, 1976. The changes in options outstanding during the two years are summarized as follows:

	1971	1970
Shares under option at beginning of year	101,107	95,955
Additions (deductions)		
Options granted	8,600	19,900
Options exercised	(2,978)	(246)
Options expired or terminated	(16,461)	(18,341)
Options increased by reason of stock dividends	4,627	3,839
Shares under option at end of year (at an average option price of $38.74 at April 3, 1971)	94,895	101,107

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Under the 1964 option plan at April 3, 1971 an additional 47,747 shares common stock were reserved for future option grants.

6. Capital in Excess of Par Value of Common Stock. Changes in capital in excess of par value of common stock are as follows:

	1971	1970
Balance at beginning of year	$123,500,795	118,607,643
Excess of assigned value over par value of 162,925 shares common stock issued as a stock dividend (1970—125,290 shares)	6,842,850	4,886,310
Excess of sales proceeds over par value of 2,978 common shares sold pursuant to exercise of stock options (1970—246 shares)	111,551	10,285
Excess of cost over market value of common treasury shares issued for investment in Trilog Associates, Inc., etc. (10,250 shares)	—	(3,443)
Balance at end of year	$130,455,196	123,500,795

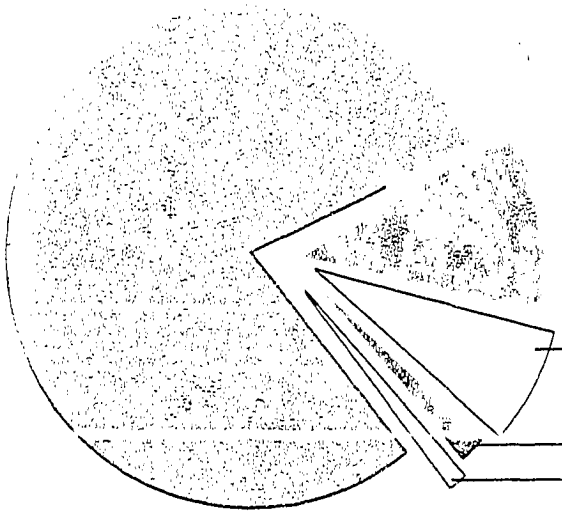
7. Lease Commitments. At April 3, 1971 the company and subsidiaries were lessees under 901 leases, including 55 leases for stores not yet opened, covering retail locations and certain distribution center properties. Rent expense was $24,245,000 and $22,977,000 for fiscal years 1971 and 1970, respectively. Aggregate future rental commitments (excluding taxes, insurance and maintenance expenses where payable by the lessee) are approximately as follows for the periods indicated:

April 1, 1971-March 31, 1976	$104,422,000
April 1, 1976-March 31, 1981	74,230,000
April 1, 1981-March 31, 1986	48,521,000
April 1, 1986-March 31, 1991	23,021,000
After March 31, 1991	5,422,000

Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals.

8. Pension Plans. Substantially all employees of the company and its subsidiaries are covered by funded pension plans. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company. The total charge to earnings for all plans (including amortization of prior service cost over periods ranging to 40 years) for the year ended April 3, 1971 was approximately $8,394,000 compared with $6,578,000 for the preceding fiscal year.

DIVISION OF SALES DOLLAR



For suppliers, processors and transportation	78.87¢
To or for office and store employees	12.17¢
For rent, advertising, heat, light, interest and other operating expenses	7.02¢
For federal, state and local taxes	1.11¢
For dividends and retained for needs of business	0.83¢
	100.00¢

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Arthur C. Kaufmann, *Chairman, Board of Directors*
Arthur C. Kaufmann and Associates, Inc.
A. Kohr Sprenkle, *Vice President*
Claude W. Edwards, *Vice Chairman, Board of Directors*
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and Commerce, University of Pennsylvania
A. E. Gilfillan, *Vice President and Assistant Secretary*
James A. Hamill, *Vice President*
Thomas T. Oyler, *Executive Vice President*
Edward J. Dwyer, *President, ESB Incorporated*
Clifford T. Haskell, *Executive Vice President*

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TRANSFER AGENT

Bankers Trust Company
Corporate Agency Division
485 Lexington Avenue
New York, New York 10017

REGISTRAR

First National City Bank
New York, New York

STOCK EXCHANGES

New York Stock Exchange
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Stock Exchange

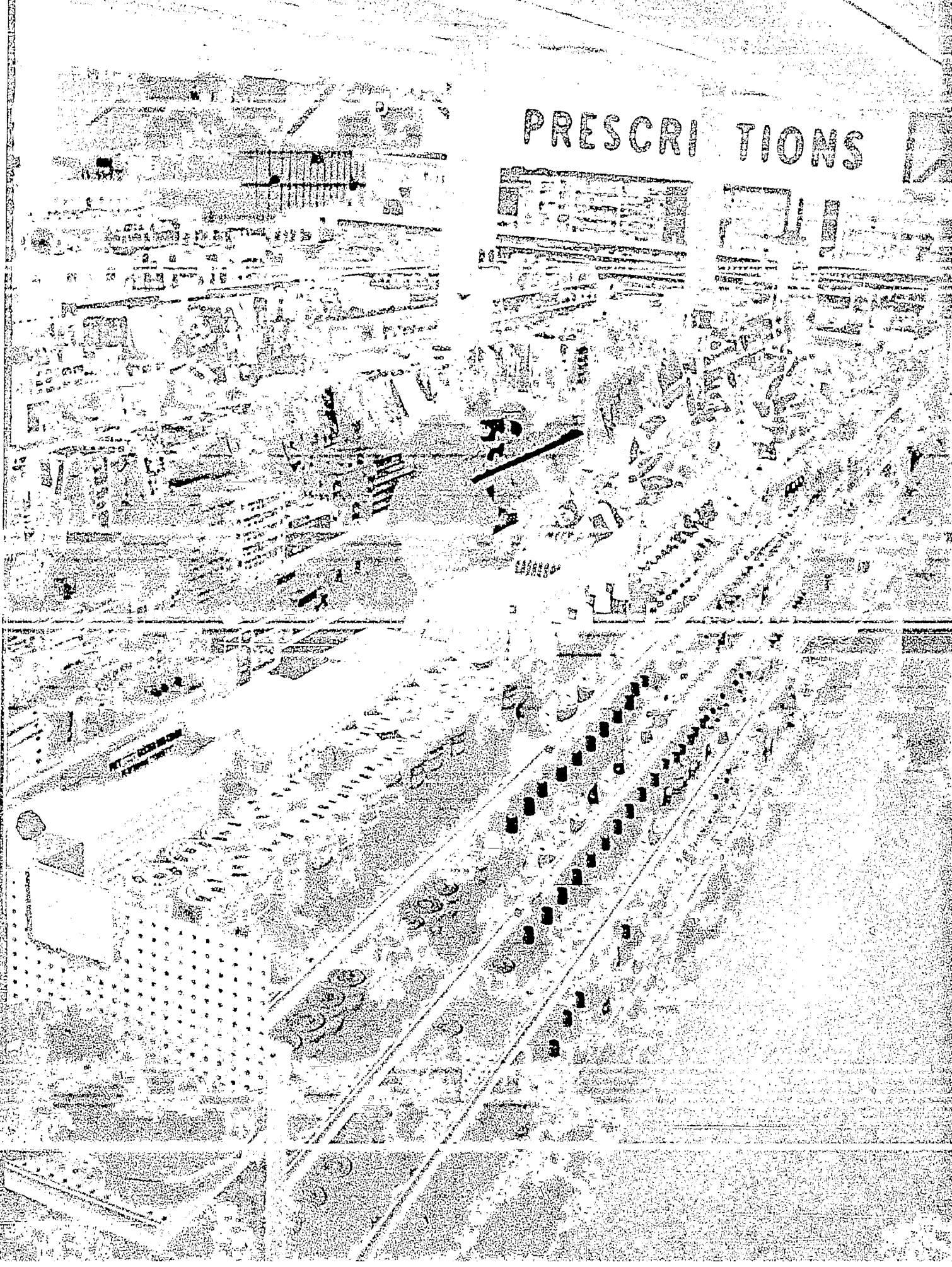
GENERAL OFFICES

124 North 15th Street
Philadelphia, Pa. 19101

ANNUAL MEETING

The annual meeting
of shareholders will be held in the
Burgundy Room of
The Bellevue-Stratford Hotel,
Broad & Walnut Streets,
Philadelphia, Pa. on Wednesday,
June 30, 1971 at 3 PM.

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